

Message Text

CONFIDENTIAL

PAGE 01 JAKART 05879 060940Z
ACTION PM-04

INFO OCT-01 EA-07 ISO-00 AID-05 IGA-02 MC-02 CIAE-00
H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01
SP-02 SS-15 USIA-06 EB-07 OMB-01 TRSE-00 ACDA-07
/077 W

-----070347Z 042174 /22

R 060835Z MAY 77
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 888
INFO SECDEF WASHDC
CINCPAC

C O N F I D E N T I A L JAKARTA 5879

CINCPAC ALSO FOR POLAD

E.O. 11652: GDS
TAGS: MASS, ID
SUBJECT: POSSIBLE TERMINATION OF GRANT MILITARY
ASSISTANCE TO INDONESIA

REF: (A) JAKARTA 0345 (DTG 070955Z JAN 77),

1. ALTHOUGH INDONESIANS HAVE BEEN PREPARED FOR TERMINATION OF GRANT MILITARY ASSISTANCE IN FY-79, RECENT SENATE SUB-COMMITTEE ACTION ON ADMINISTRATION'S FY-78 MAP PROPOSALS FOR THAILAND AND INDONESIA SUGGEST THAT CUT-OFF MIGHT COME SOONER THAN INDONESIANS EXPECT. IN ANTICIPATION OF POSSIBILITY THAT THE GRANT PROPOSAL FOR INDONESIA WILL NOT RECEIVE CONGRESSIONAL APPROVAL, I RECOMMEND THAT WE NOW OBTAIN EXECUTIVE BRANCH APPROVAL FOR EXTENDING FMS CREDIT PAYMENT PERIOD TO EIGHT YEARS PRECEDED BY TWO YEAR GRACE PERIOD. WE COULD ANNOUNCE THESE TERMS AT APPROPRIATE MOMENT, INDICATING THAT THEY WERE GIVEN IN LIEU OF GRANT COMPONENT, SHOULD LATTER BE RULED OUT BY CONGRESS.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 JAKART 05879 060940Z

2. AS POINTED OUT IN REF A, THERE ARE GOOD ECONOMIC REASONS FOR PROVIDING GOI BETTER CREDIT TERMS. BECAUSE OF DEBT SERVICE PAYMENTS, THE NET INFLOW OF FOREIGN EXCHANGE WILL DROP FROM NEARLY \$2 BILLION IN 1976 TO LESS THAN \$250 MILLION IN 1979. INDONESIA'S DEBT SERVICE BURDEN IS EXPECTED TO APPROACH THE TRADITIONAL DANGER ZONE OF

AROUND 20 PERCENT BY 1979/80. WORLD BANK AND IGGI TOOK NOTE OF THIS FACT IN RECENTLY ENDORSING INDONESIA'S REQUIREMENT FOR \$1.5 BILLION CONCESSIONAL ASSISTANCE IN COMING YEAR. IT SHOULD ALSO BE NOTED THAT, ALTHOUGH THE GOI'S SECURITY CONCERNS HAVE INCREASED OVER THE PAST YEAR, ITS 1977 INVESTMENT BUDGET CONTINUES TO ALLOT LESS THAN THREE PERCENT OF INVESTMENT FUNDS TO DEFENSE, IN KEEPING WITH THE NATION'S OVERALL ECONOMIC DEVELOPMENT ORIENTATION.

3. IMPROVED FMS CREDIT TERMS WILL HELP US PRESERVE THE LEVERAGE MAP HAS HERETOFORE PROVIDED US IN PURSUING IMPORTANT GOALS. AMONG THESE ARE OUR LAW OF THE SEA OBJECTIVES INCLUDING, IN PARTICULAR, CONTINUED FREE PASSAGE THROUGH INDONESIA'S IMPORTANT STRAITS, AND BETTER INDONESIAN PERFORMANCE IN THE FIELD OF HUMAN RIGHTS. THE MILITARY LEADERSHIP, TO WHICH OUR MAP HAS FACILITATED ACCESS, HAVE IMPORTANT POLICY-MAKING ROLE IN BOTH THESE AREAS. FINALLY, WE SHOULD TAKE INTO ACCOUNT THE SYMBOLIC IMPORTANCE MILITARY ASSISTANCE HAS ASSUMED IN OUR BILATERAL RELATIONS. A GRANT AID CUT-OFF WOULD LIKELY ADD TO CURRENT INDONESIAN DOUBT REGARDING CONTINUED U.S. INTEREST IN SOUTHEAST ASIA'S SECURITY. IMPROVEMENT OF CREDIT TERMS WOULD HELP OFFSET SUCH A REACTION.

NEWSOM

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Message Attributes

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Copy: SINGLE
Sent Date: 06-May-1977 12:00:00 am
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